

**Texas Higher Education Coordinating Board  
Internal Audit Charter  
January 2018**

**A. Purpose and Mission**

The purpose of Texas Higher Education Coordinating Board's (hereinafter THECB) internal audit department is to provide independent, objective assurance and consulting services designed to add value and improve THECB's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit department helps THECB accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

**B. Standards for the Professional Practice of Internal Auditing**

The internal audit department will govern itself by adherence to the Texas Internal Auditing Act, Government Auditing Standards promulgated by the Government Accountability Office (GAO), and the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Director, Internal Audit and Compliance will report periodically to senior management and the Board of THECB (hereinafter Board) regarding the internal audit department's conformance to the Code of Ethics and the Standards.

**C. Authority**

The Director, Internal Audit and Compliance will report functionally to the Board and administratively (i.e., day-to-day operations) to the chief executive officer (Commissioner of Higher Education). To establish, maintain, and assure that THECB's internal audit department has sufficient authority to fulfill its duties, the Board will:

- Approve the internal audit department's charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit department's budget and resource plan.
- Receive communications from the Director, Internal Audit and Compliance on the internal audit department's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Director, Internal Audit and Compliance.
- Approve the remuneration of the Director, Internal Audit and Compliance.
- Make appropriate inquiries of management and the Director, Internal Audit and Compliance to determine whether there is inappropriate scope or resource limitations.

The Director, Internal Audit and Compliance will communicate and interact directly with the Board, including in executive sessions and between Board meetings as appropriate.

The Board authorizes the internal audit department to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of THECB, as well as other specialized services from within or outside THECB, in order to complete the engagement.

#### **D. Independence and Objectivity**

The Director, Internal Audit and Compliance will ensure that the internal audit department remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Director, Internal Audit and Compliance determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for THECB.
- Initiating or approving transactions external to the internal audit department.
- Directing the activities of any THECB employee not employed by the internal audit department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Director, Internal Audit and Compliance has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.

- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Director, Internal Audit and Compliance will confirm to the Board, at least annually, the organizational independence of the internal audit department.

The Director, Internal Audit and Compliance will disclose to the Board any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

### **E. Scope of Internal Audit Activities**

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Board, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for THECB. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of THECB's strategic objectives are appropriately identified and managed.
- The actions of THECB's officers, directors, employees, and contractors are in compliance with THECB's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact THECB.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Director, Internal Audit and Compliance will report periodically to senior management and the Board regarding:

- The internal audit department's purpose, authority, and responsibility.
- The internal audit department's plan and performance relative to its plan.
- The internal audit department's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Board.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to THECB.

The Director, Internal Audit and Compliance also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit department may perform advisory and related client

service activities, the nature and scope of which will be agreed with the client, provided the internal audit department does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

## **F. Responsibility**

The Director, Internal Audit and Compliance has the responsibility to:

- Submit, at least annually, to senior management and the Board a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Board the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in THECB's business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Board any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Board any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit department collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact THECB are considered and communicated to senior management and the Board as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit department.
- Ensure adherence to THECB's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Board.
- Ensure conformance of the internal audit department with the Standards, with the following qualifications:
  - o If the internal audit department is prohibited by law or regulation from conformance with certain parts of the Standards, the Director, Internal Audit and Compliance will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
  - o If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Director, Internal Audit and Compliance will ensure that the internal audit department conforms with the Standards, even if the internal

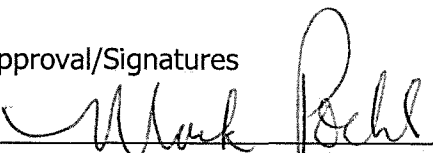
audit department also conforms with the more restrictive requirements of other authoritative bodies.

### G. Quality Assurance and Improvement Program

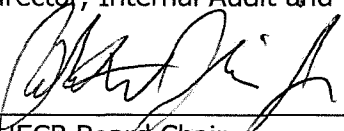
The internal audit department will maintain a quality assurance and improvement program that covers all aspects of the internal audit department. The program will include an evaluation of the internal audit department's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit department and identify opportunities for improvement.

The Director, Internal Audit and Compliance will communicate to senior management and the Board on the internal audit department's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every three years by a qualified, independent assessor or assessment team from outside THECB.


Approval/Signatures

  
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Director, Internal Audit and Compliance

1/28/18  
Date

  
\_\_\_\_\_  
THECB Board Chair

1/28/18  
Date

  
\_\_\_\_\_  
Chief Executive Officer  
(Commissioner of Higher Education)

2-2-18  
Date